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No. 440

IN THE

Supreme Court of the United States

OCTOBER TERM, 1959

THE AMERICAN SECURIT COMPANY,
Petitioner,

v.

SHATTERPROOF GLASS CORPORATION,
Respondent.

MOTION FOR LEAVE TO FILE A BRIEF AS *AMICUS CURIAE* AND BRIEF OF SMITH, BUCKLIN AND ASSOCIATES, INC. IN SUPPORT OF PETITION FOR REHEARING OF THE PETITION FOR A WRIT OF CERTIORARI

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MOTION OF SMITH, BUCKLIN AND ASSOCIATES, INC. FOR LEAVE TO FILE A BRIEF AS *AMICUS CURIAE*

The Smith, Bucklin and Associates, Inc. respectfully moves this Court for leave to file a brief as *amicus curiae* in support of the petition for rehearing of the petition for a writ of certiorari filed herein on or about September 30, 1959. This brief will be limited to the questions raised by the following excerpt from the opinion by the Court of Appeals:

> "Whatever may be the asserted reason or justification of the patent owner, if he compels a licensee to accept a package of patents or none at all, he employs one patent as a lever to compel the acceptance of a license under another. Equity will not countenance such a result."

The Court of Appeals concluded that the District Court had not committed error in finding that package licensing arrangements constituted a misuse of patents and therefore a defense to a suit for infringement of such patents.

That holding affects or may affect thousands of license agreements between United States licensors and United States or foreign licensees in which two or more patents are involved. It ignores the composition of the great majority of such license agreements which commonly cover all pertinent intellectual property rights of licensors including patents licensed in package-licenses. The compulsory use of tied-in goods or commodities in connection with the patents concerned is not involved in the present litigation.

Petitioner has limited itself to the circumstances of its particular situation under the antitrust decree. The problems that are presented to patent proprietors not subject to such a decree have not been adequately presented. Petitioner has consented to this motion. Respondent has refused or failed to consent.

The Smith, Bucklin and Associates, Inc. is an Illinois corporation which acts as management consultants for twenty associations of manufacturers in twenty different industries with a total membership of upward of five hundred manufacturing companies.

The questions presented involve the interpretation of the terms "misuse of patents", "license agreement" and "package-license".

The problems presented in the petition herein are of extreme importance to your applicant and its clients and its member companies because the usual license agreement is a package of rights which may or may not include licenses under patents discussed during negotiations and thus a licensor might be accused of using one patent as a lever even if that patent is not included in the ultimate

license agreement. In fact all of the patents mentioned in the agreement may be future patents. Furthermore the package is indivisible. It must necessarily consist of know-how, technical data and patents, whether each is or is not spelled out. As a consequence it is very difficult to evaluate individually the know-how, the technical data and the individual patents covered by the agreement. It is essential to every United States licensor to know the conditions under which he can present package license agreements to prospective licensees. He must know whether the protection afforded him under the Constitution is to be whittled away or denied by the failure of the courts to take into consideration the present day conditions and procedures involved in licensing intellectual property rights. He must know how he can offer prospective licensees his intellectual property and inventions in a commercially feasible licensing agreement. The agreement may include one patent, multiple patents, or no patents at all, but always includes the licensor's know-how and technical data, most of which is not retrievable after the commencement of the agreement. Negotiations leading up to license agreements always include a discussion of patents, whether or not patents are specifically enumerated in license agreements.

At present, patents are of minor importance in the great majority of license agreements. To evaluate any one of a number of patents is difficult, but to evaluate one or more patents in a license agreement in which patents are incidental, is impossible. Hence this Court's decision in the present case inevitably will have a direct and important bearing upon every United States license agreement referring to two or more current or future patents. Many of these agreements are with agencies of foreign governments and treaty organizations. Upon the interpretation of such agreements may depend the ability of United States licensors to compete in the domestic and foreign markets.

It is of extreme importance that the law of this country be made certain as to the rights of licensors to utilize package licensing agreements where such are necessary to obtain a just profit on their inventions.

For the foregoing reasons, it is respectfully requested that the Court grant this motion and permit the filing of the attached brief.

Respectfully submitted,

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Statement.

Since the parties are described, the facts stated and the issues framed in the petition, there is no need to repeat them here.

ARGUMENT

The Court of Appeals committed error in not specifically holding that a licensor who will license his patents only in a package is not *per se* misusing such patents. The Court of Appeals' opinion denied a substantial right of all United States licensors and completely ignores the composition of the great majority of existing United States license agreements. Because patents involving new products or processes for which no alternatives exist, are now a rarity, package licensing may be the only practical means available to licensors to obtain a just reward for and to protect all the intellectual and industrial property rights involved in patent licensing agreements. The administration of license agreements will also be affected.

Where the licensor offers his patents only in a package and not on an individual basis the Court of Appeals concluded such practice was a *per se* patent misuse. The theory adopted is the same as that which runs throughout the tie-in cases where the licensor or seller attached the compulsory purchase of a physical product to the product which the purchaser or licensee desired to lease, purchase or manufacture under license. It seems clear that the Clayton Act's provision relating to tie-in agreements would not apply to a patent tied to a patent since Section 3 of that Act applies only to leases, sales or contracts of sale of goods, wares, merchandise, machinery, supplies or other commodities whether patented or unpatented. 15 U. S. C. § 14. However, assuming that the rationale of the tie-in cases applies to an agreement tying in patents or to a patent package license, for purposes of determining misuse, throughout the tie-in cases there appears to be a common denominator. By the tie-in arrangement, the seller or licensor has received some competitive advantage from the tie in arrangement, if not direct financial benefit. In addi

tion, the obligations of the licensee or purchaser to the licensor or seller have been increased by such tie-in agreements.

Where the licensor of a group of patents is prepared to charge the same royalty for any one of such group as would be charged for any other number of patents which he owns, neither of the above results occur. The seller will not receive an additional royalty regardless of the licensee's ultimate selection of patents to be exercised within the license. The licensee's obligations to the seller have not been increased regardless of the additional number of patents he ultimately determines to have included within his license.

Even assuming Section 3 of the Clayton Act, *supra*, applied to tie-in patents the package patent licensing arrangement is still not comparable to the tie-in contract challenged in *International Salt Co., Inc.* v. *United States*, 332 U. S. 392 (1947). There this Court found that it was unreasonable *per se* to foreclose competition from any substantial market. In package licensing of patents there is no foreclosure of competition from a substantial market for a tied-in product. This is not a situation in which, for example, salt sold as a tied product under a tie-in agreement would foreclose the market to other sellers of salt by the amount that was tied. There is no identifiable market as such which might be usurped by the granting of a package patent license. In fact, each patent grant announces the individuality or uniqueness of the patented invention and would thus not foreclose in any event a market for an already extant and comparable intangible. The licensee pays (other than minimum royalties) only when the packaged patents are used in making his own products. At such time he pays the same royalty for use of one or all patents.

The alleged tied-in products, *i.e.*, the totality of the patents in the package, certainly do not foreclose other

patentees from also offering their patents under license to the licensee of the package. This Court in analyzing tie-in agreements recognized that such agreements serve hardly any purpose beyond the suppression of competition but that one situation exists where such agreement might be justified. This situation arises where the protection of the good will of the seller may necessitate the use of tie-in clauses since the specifications for a substitute would be so detailed that they could not be supplied practically. See *Standard Oil Co. of California, et al.* v. *United States*, 337 U. S. 293, 295-296 (1949). The exceptional situation described in *Standard Oil Co. of California, et al.* v. *United States, supra*, is comparable to that of the multiple patentee who seeks to protect the intellectual property associated with one patent by inclusion of complementary intellectual properties contained in his other patents. The patentee, of course, also thus seeks to protect the underlying know-how and technical data related to all his packaged patents. In both the tie-in situation where good will is to be protected and the package patent licensing situation where valuable intellectual property is to be protected the package arrangement may be the only method by which such protection can be accomplished.

There are two areas of the antitrust law in which the *per se* doctrine of unreasonability is used to characterize and judge trade practices believed to be violative of such law. It is *per se* unreasonable for competitors to fix prices or otherwise combine in restraint of trade and it is *per se* unreasonable to foreclose competitors from any substantial market. Cf. *International Salt Co., Inc.* v. *United States, supra*. The package licensing of patents could only fall by implication within the latter category of practice. However, it is clear that the *per se* rule does not apply unless there has been foreclosure of a substantial market. This has not been shown to have occurred in the present litigation. It may be agreed that a violation of the antitrust laws need

not be found in order to make a finding of patent misuse. Cf. *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U. S. 488 (1942). However, where the licensor's course of conduct is not such as would automatically fall within the *per se* doctrine of unreasonability under the antitrust laws, were they to be applied, then the application of a *per se* misuse theory is equally inappropriate.

Even if it is assumed that the licensee is compelled to take such package of patents, when the licensee is under no additional royalty charge for unwanted patents in the package there is no discernible harm to his interests. The licensee is free to practice inventions which were previously closed to him by the licensor's patents. His area of permissible action is increased. The licensee's right of election to use or not use any of the patents in the package remains unchanged. The licensee is unrestrained in his selection both of the licensor's packaged patents and of such other patents as are offered by other licensors. In fact, by the licensing of the additional patents the licensee's freedom of choice is actually increased for there are fewer patent grants which he must avoid infringing. Under the circumstances, the licensor's reasons for package licensing should not be cast aside without consideration.

The application by the Court of Appeals of the *per se* rule of misuse in relation to package licensing has automatically cut off any consideration of the substantial practical reasons and necessity for such arrangements. The application of a *per se* rule of misuse to mandatory package licensing is unnecessarily harsh. In *International Salt Co., Inc.* v. *United States, supra*, the necessity for adoption of a *per se* rule was justified on the grounds that International's competitors were denied access, by the tying agreements, to a substantial market. Denial of market access to competitors is not an issue in the package licensing of patents.

There will be no necessity for such elaborate investigation into the reasons and necessity for package patent licenses as might have been precipitated in *Standard Oil Co. of California, et al.* v. *United States, supra,* had not the rule of *International Salt Co., Inc.* v. *United States, supra,* been adopted. Nor should such package licenses be condemned *per se* as against public policy as in the case of conspiratorial restraints such as price-fixing. Cf. *United States* v. *Socony-Vacuum Oil Co., Inc., et al.* 310 U. S. 150 (1940). The package patent licensor should be allowed an opportunity to present the very substantial reasons and justifications for such package licensing.

The reasons for package licensing are clear. It is impossible in most cases to divorce the patent from the technical know-how and expertise to which it is related. Many patents, if not all, owned by a licensor will be closely related and will also be based upon the underlying know-how and technical data possessed by the licensor. This know-how may be essential in the effective utilization of the patent or patents licensed.

The license of one patent or a group of patents may thus be made by the licensor at the same cost as that of the valuable underlying know-how and technical data. The benefit derived by the licensor from package licensing of his patents under such circumstances is primarily related to the protection of his technical know-how. The patents included in any package patent licensing arrangement will vary in importance. Basic patents, for which no alternative exists, are too rare for general consideration. Some patents will be important, others minor, and they will usually extend for varying terms. In addition, licensees quite often can not be certain which of the licensor's patents will be utilized in their operations subsequent to agreement. This is particularly true where the licensee is diversifying operations and moving into a new field of production.

Rather than attempting an individual evaluation of each patent's value under such circumstances, royalty payments are commonly predicated on the number of products produced by the licensee embodying or making use of the licensor's know-how, technical data and patents. Cf. *Automatic Radio Mfg. Co., Inc.* v. *Hazeltine Research, Inc.*, 339 U. S. 827 (1950). There are, of course, multifarious other methods for determining effective royalty payments related to the licensee's production or sales under the patent license.

Where there has been no foreclosure of a substantial market to competitors and there are reasons and justifications for the package licensing of patents it is respectfully submitted that the application of a *per se* rule of patent misuse based on such package licensing may result in the denial of substantial rights to the patent licensor. The licensor should be permitted to show the reasons and justifications for such package licensing of his patents.

CONCLUSION

The petition for rehearing of the petition for a writ of certiorari should be granted.

Respectfully submitted,

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Dated: New York, New York,
January 15, 1960.

Certificate of Service.

I, LAWRENCE J. ECKSTROM, Counsel for Smith, Bucklin and Associates, Inc., *amicus curiae*, and a member of the Bar of the Supreme Court of the United States, hereby certify that on the 15th day of January, 1960, I served copies of the foregoing Motion and Brief on the following attorneys by mailing a copy to each of them in duly addressed, first-class, postage prepaid envelopes, to their respective addresses noted below:

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I further certify that on the 15th day of January, 1960, I served a copy of the foregoing Motion and Brief on the following attorneys by mailing a copy to them in a duly addressed, airmail, postage prepaid envelope to the address noted below:

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The attorneys, whose names and addresses are shown above, represent all the parties to these proceedings.

Lawrence J. Eckstrom